

WILLIAM A. MUNDELL  
CHAIRMAN

JIM IRVIN  
COMMISSIONER

MARC SPITZER  
COMMISSIONER



415



MARK SENDROW  
DIRECTOR

SECURITIES DIVISION  
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ARIZONA CORPORATION COMMISSION  
**OPEN MEETING ITEM**

**MEMORANDUM**

**TO:** Chairman William A. Mundell  
Commissioner Jim Irvin  
Commissioner Marc Spitzer

Arizona Corporation Commission

**DOCKETED**

AUG 15 2001

**FROM:** Mark Sendrow *MS*  
Director of Securities

DOCKETED BY	<i>MS</i>
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**DATE:** August 15, 2001

**RE:** Proposed Default Order Against Hotel Connect LLC's #100-1100  
Docket No. S-03444A-01-0000 (Hotel Connect LLC's #100-1100, et al.)

**CC:** Brian C. McNeil, Executive Secretary

RECEIVED  
2001 AUG 15 A 11: 16  
AZ CORP COMMISSION  
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Attached is a proposed Order to Cease and Desist, Order for Restitution, Order for Administrative Penalties, and for Other Affirmative Action, against Respondents Hotel Connect LLCs #100-1100 ("Respondents"), regarding the offer and sale of securities in the form of investment contracts, called limited liability company "membership interests."

On July 18, 2001, the Securities Division ("Division") filed a Notice of Opportunity for Hearing Regarding Proposed Order to Cease and Desist, for Restitution, for Administrative Penalties, for Revocation, and for Other Affirmative Action ("Notice"), alleging that Respondents, among others, engaged in the sale of unregistered securities and securities fraud within or from Arizona. The Division alleged in the Notice that the offers and sales of the membership interests were in violation of A.R.S. §§ 44-1841, 44-1842 and 44-1991.

On July 26, 2001, the Division properly served copies of the Notice on Respondents. Respondents failed to request an administrative hearing. Therefore, a default order is appropriate. The Order requires Respondents to pay restitution in the total amount of \$5,350,000 to 110 investors, plus interest from the date of the investments, and penalties in the amount of \$50,000.

MS: ptj  
W/ attachments

Originator: Pam Johnson  
Assistant Attorney General Assigned: Moira McCarthy

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 WILLIAM A. MUNDELL

Chairman

3 JIM IRVIN

Commissioner

4 MARC SPITZER

Commissioner

5 In the matter of:

) Docket No. S-03444A-01-0000

6 HOTEL CONNECT LLC's #100-1100

7 3649 West Beechwood Suite 103

8 Fresno, CA 93711

9 MARK ALAN MELKOWSKI, SR.

2173 East La Vieve Lane

10 Tempe, AZ 85254

11 EAGLE COMMUNICATIONS, INC.

4430 N. Civic Center Plaza #204

12 Scottsdale, AZ 85251

13 RONALD LEE GOBLE, individually and dba

SOUTHWEST TRUST & FINANCIAL

14 6243 East Gelding Drive

Scottsdale, AZ 85254

15 GARY LYLE CHRISTIAN, individually and dba

CORNERSTONE SENIOR PLANNING

16 7015 West Firebird Drive

17 Glendale, AZ 85308

18 HYLAND A. STOKES, individually and dba

ESTATE PLANNING PROTECTION

19 5570 East Via Montoya Drive

Phoenix, AZ 85054

20 ROGER LANCETTE, individually and dba

NATIONAL ADVISORY SERVICES and

21 SENIOR ADVISORY SERVICES

22 6857 East Montreal Place

Scottsdale, Arizona 85254

23 WALLACE BUTTERWORTH, individually and

24 dba SENIOR ADVISORY SERVICES

1411 East Orangewood Avenue #239

25 Phoenix, AZ 85020

CRD #728693

26 Respondents.

)  
)  
) **ORDER TO CEASE AND DESIST, ORDER**  
) **FOR RESTITUTION, ORDER**  
) **FOR ADMINISTRATIVE PENALTIES,**  
) **AND FOR OTHER AFFIRMATIVE ACTION**  
) **AGAINST RESPONDENTS HOTEL**  
) **CONNECT LLC'S #100-1100**

) **DECISION NO.** \_\_\_\_\_

**I.****INTRODUCTION**

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1. On July 18, 2001, the Securities Division (the "Division") of the Arizona Corporation Commission (the "Commission") filed a Notice of Opportunity for Hearing Regarding Proposed Order to Cease and Desist, for Restitution, for Administrative Penalties, for Revocation, and for Other Affirmative Action (the "Notice") against, *inter alia*, HOTEL CONNECT LLC's #100-1100 (collectively "HOTEL CONNECT"), alleging violations of the Securities Act of Arizona (the "Act"). The Notice specified that HOTEL CONNECT would be afforded an opportunity for an administrative hearing upon written request filed with the Commission's Docket Control within ten (10) days after receipt of the Notice, in accordance with A.A.C. Rule R14-4-306(B).

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2. On July 26, 2001, the Division served a copy of the Notice upon HOTEL CONNECT by personal service pursuant to A.R.S. § 44-1972 (D), as permitted by A.A.C. Rule R14-4-304(B), to the statutory agent of record, Corporation Trust Company of Nevada, 6100 Neil Road, Reno, Nevada 89511. *See* copy of Affidavit of Service attached hereto as Exhibit "A." Pursuant to A.A.C. Rule R14-4-306(B), a Respondent is permitted to request a hearing in writing within 10 business days after receipt of the Notice by Respondent. HOTEL CONNECT failed to request an administrative hearing.

**II.****FINDINGS OF FACT****A. Sales and Marketing Network for "Alternative" Investments.**

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3. HOTEL CONNECT is a series of Nevada limited liability companies, organized between June 5, 1998, and August 5, 1999. Their principal place of business is 3649 W. Beechwood Ave., Suite 103, Fresno, California, 93711. At all pertinent times, HOTEL CONNECT was purportedly in the business of acquiring, owning, and operating hotel telephone long distance and operator service systems.

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4. In or around October 1998, Respondent Mark Alan Melkowski, Sr. and his company Respondent Eagle Communications, Inc. (collectively, "Melkowski") recruited several licensed

1 insurance salesmen to contract as sales agents for HOTEL CONNECT and World Cash Providers,  
2 LLC ("World Cash") to sell "alternative" investments to their clients. Melkowski acted as a  
3 managing sales agent for HOTEL CONNECT. Melkowski received commissions for the sale of the  
4 HOTEL CONNECT membership interests in the amount of 20% of the funds raised from investors.

5 5. HOTEL CONNECT provided joint sales conferences and training sessions for sales  
6 agents on how to sell the LLC membership interests and World Cash business opportunities  
7 programs.

8 6. In late 1998 or early 1999, top sales producers were rewarded for high volume sales  
9 with a "getaway" trip and seminar held in New Orleans. Several training sessions and seminars were  
10 held in Fresno, California through late 1999.

11 7. On February 8, 2000, the California Department of Corporations ("DOC") found  
12 that the World Cash business opportunities were securities sold in violation of California law, and  
13 ordered World Cash and some of its principals, managers and marketers to stop selling these  
14 business opportunities in California.

15 8. In February 2000, after the California DOC ordered World Cash to desist and refrain  
16 from further sales of business opportunities in California, Respondent sales agents stopped selling  
17 HOTEL CONNECT and World Cash products.

18 9. In or around March 2000, several sales agents attended a sales seminar held in Las  
19 Vegas, Nevada, to promote the sale of Mobile Cash Systems, LLC (Mobile Cash) business  
20 opportunities, a new program marketed by the same principals who offered the HOTEL CONNECT  
21 and the World Cash products.

22 10. Respondent sales agents solicited some of their investors through cold-calls and at  
23 seminars advertised to the general public, followed by visits to the investors' homes.

24 11. In some instances, Respondent sales agents went to investors' homes to sell them  
25 annuities, and then later represented to these investors that these "alternative" investments would  
26 be better investments for them because they could make a larger profit from these investments.

1 Respondent sales agents encouraged their insurance clients to sell their annuities to invest in these  
2 “alternative” investments. Some investors sustained penalties or termination charges upon the  
3 termination of their annuity contracts, and then, upon Respondent sales agents’ recommendations,  
4 used the funds to purchase the “alternative” investments.

5 **B. Description of the Hotel Connect Offerings.**

6 12. From in or around October 1998 until February 2000, HOTEL CONNECT offered  
7 and sold within and from Arizona membership interests to approximately 110 investors, who  
8 invested approximately \$5,350,000. Investors were told that their funds would be used to operate a  
9 hotel long distance and operator service for the purpose of generating a profit for investors.

10 13. The minimum investment for one membership interest in HOTEL CONNECT was  
11 \$10,000, for a projected annualized average 17.6% return for the first five years. Investors were told  
12 by salesmen and in sales brochures that the investment provided the investor “high returns with  
13 minimal risk, good collateralization, and liquidity in case of emergency throughout his or her  
14 ownership,” and that they could expect annual yields on their investments of 14% during year one,  
15 and up to 20% annual yields during year five.

16 14. While HOTEL CONNECT subscription documents provide specifically that the  
17 investments “will be sold only to accredited investors,” in fact the investments were in many cases  
18 sold to investors who did not meet the definition of an accredited investor as that term is defined  
19 under federal law and adopted under the Securities Act.

20 15. HOTEL CONNECT did not fully disclose the risks of the investments in HOTEL  
21 CONNECT.

22 16. Investors in HOTEL CONNECT interests have not received their first annual  
23 return, as promised.

24 17. In connection with the offer or sale of securities within or from Arizona, HOTEL  
25 CONNECT directly or indirectly: (i) employed a device, scheme or artifice to defraud; (ii) made  
26 untrue statements of material fact or omitted to state material facts which were necessary in order to

1 make the statements made not misleading in light of the circumstances under which they were made;  
2 or (iii) engaged in transactions, practices or courses of business which operated or would operate as a  
3 fraud or deceit upon offerees and investors. HOTEL CONNECT'S conduct includes, but is not  
4 limited to, the following:

5 a) Misrepresenting the safety of these investments and/or failing to disclose specific  
6 risks.

7 b) Failing to disclose financial or background information about the issuers or  
8 their principals.

9 c) Failing to disclose to HOTEL CONNECT investors that there would be inter-  
10 company transfers of funds between HOTEL CONNECT and World Cash or other  
11 companies.

12 **III.**

13 **CONCLUSIONS OF LAW**

14 1. The Commission has jurisdiction over this matter pursuant to Article XV of the  
15 Arizona Constitution and the Securities Act.

16 2. HOTEL CONNECT offered or sold securities within or from Arizona, within the  
17 meaning of A.R.S. §§ 44-1801(15), 44-1801(21), and 44-1801(26).

18 3. HOTEL CONNECT violated A.R.S. § 44-1841 by offering or selling securities that  
19 were neither registered nor exempt from registration.

20 4. HOTEL CONNECT violated A.R.S. § 44-1842 by offering or selling securities  
21 while neither registered as dealers or salesmen nor exempt from registration.

22 5. HOTEL CONNECT violated A.R.S. § 44-1991 by offering or selling securities  
23 within or from Arizona by (i) employing a device, scheme or artifice to defraud, (ii) making untrue  
24 statements or misleading omissions of material facts, and (iii) engaging in transactions, practices or  
25 courses of business which operate or would operate as a fraud or deceit.

26 6. HOTEL CONNECT failed to request a hearing.

1 7. HOTEL CONNECTS' conduct is grounds for a cease and desist order pursuant to  
2 A.R.S. § 44-2032.

3 8. HOTEL CONNECTS' conduct is grounds for an order of restitution pursuant to  
4 A.R.S. § 44-2032.

5 9. HOTEL CONNECTS' conduct is grounds for administrative penalties under A.R.S.  
6 § 44-2036.

7 **IV.**  
8 **ORDER**

9 THEREFORE, on the basis of the Findings of Fact and Conclusions of Law, the following  
10 relief is appropriate, in the public interest, and necessary for the protection of investors:

11 IT IS ORDERED, pursuant to A.R.S. § 44-2032, that HOTEL CONNECT, their agents,  
12 employees, successors and assigns, permanently cease and desist from violating the Securities Act.

13 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that HOTEL CONNECT shall,  
14 jointly and severally with any other Respondents who are subject to Orders of the Commission, pay  
15 restitution to HOTEL CONNECT LLC membership interest investors shown on the records of the  
16 Commission in the amount of \$5,350,000, plus interest at the rate of 10% per annum from the date  
17 of each investment, until paid in full. If additional HOTEL CONNECT investors are later  
18 discovered, HOTEL CONNECT shall pay claims of those investors under the terms of this Order.  
19 Payment shall be made by cashier's check or money order payable to the "State of Arizona" to be  
20 placed in an interest-bearing account maintained and controlled by the Arizona Attorney General.  
21 The Arizona Attorney General shall disburse the funds on a pro rata basis to investors. Any funds  
22 that the Attorney General is unable to disburse shall revert to the state of Arizona.

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1 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that HOTEL CONNECT shall  
2 pay administrative penalties in the amount of \$50,000. Payment shall be made in full by cashier's  
3 check or money order on the date of this Order, payable to the "State of Arizona." Any amount  
4 outstanding shall accrue interest at the rate of 10% per annum from the date of this Order until paid  
5 in full.

6 IT IS FURTHER ORDERED that this Order shall become effective immediately.

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION  
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10 \_\_\_\_\_  
CHAIRMAN

COMMISSIONER

COMMISSIONER

11  
12 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,  
13 Executive Secretary of the Arizona Corporation  
14 Commission, have hereunto set my hand and caused the  
15 official seal of the Commission to be affixed at the Capitol,  
16 in the City of Phoenix, this \_\_\_\_\_ day of  
17 \_\_\_\_\_, 2001.

18 \_\_\_\_\_  
BRIAN C. McNEIL  
Executive Secretary

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20 \_\_\_\_\_  
DISSENT

21  
22 This document is available in alternative formats by contacting Shelly M. Hood, ADA Coordinator,  
23 voice phone number 602-542-3931, E-mail [shood@cc.state.az.us](mailto:shood@cc.state.az.us).

24 PTJ  
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RECEIVED

STATE OF NEVADA  
OFFICE OF THE SECRETARY OF STATE  
SECURITIES DIVISION  
1755 E. PLUMB LANE SUITE #231  
RENO, NV 89502  
(775) 688-1755

2001 JUL 30 P 12:40

AZ CORP COMMISSION  
DOCUMENT CONTROL

In the Matter of:

Hotel Connect LLC's 100-1100

Respondent(s).

AFFIDAVIT OF SERVICE OF

NOTICE OF OPPORTUNITY FOR  
HEARING REGARDING PROPOSED  
ORDER TO CEASE AND DESIST, FOR  
RESTITUTION, FOR ADMINISTRATIVE  
PENALTIES, FOR REVOCATION, AND  
FOR OTHER AFFIRMATIVE ACTION

DOCKET NO. S-03444A-01-0000

State of Nevada )  
County of Washoe ) ss.

I, SCOTT R. BALDER, being first duly sworn, depose and say:

1. That on the 25<sup>th</sup> day of JULY, 2001, I received the above referenced document in the above-referenced matter.

2. That on the 26<sup>th</sup> day of JULY, 2001, I served a true and correct copy of said document, by personal service, on Faye Martin located at: Corporation Trust Company of Nevada, 6100 Neil Road, Reno Nevada 89511 Resident Agent for Hotel Connect L.L.C. 100-1100.

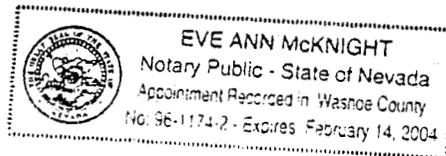
DATED this 26<sup>th</sup> day of JULY, 2001.

*Scott R. Balder*

SCOTT R. BALDER

Subscribed and sworn to before me  
By: SCOTT R. BALDER  
this 26<sup>th</sup> day of JULY, 2001.

*Eve Ann McKnight*  
Notary Public in and for said  
County and State



Decision No. \_\_\_\_\_  
EXHIBIT A